GASAN FINANCE COMPANY p.l.c.

Annual Report and Financial Statements
31 December 2013

Company Registration Number: C16435

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2013.

Principal activity

The Company's principal activity is to hold immovable properties, raise financing from capital markets and to finance the Group's operations and its capital projects.

Review of the business

Revenue generated during the financial year amounted to €3,534,482 (2012: €3,434,726). This was generated from interest receivable on bills of exchange, interest charged to group companies on outstanding balances and rental income. Interest payable amounted to €1,506,325 (2012: €1,497,205). Administrative expenses amounted to €297,696 (2012: €271,315) and include costs incurred in refurbishing the company's property.

The profit for the period before taxation amounted to €2,630,461 (2012: €4,325,866). This includes changes in fair value of investment property of €900,000 (2012: €2,659,660). After deducting taxation, profit for the period amounted to €1,996,936 (2012: €3,509,970).

In 2013, the Company embarked on a bond-exchange programme when it issued €25,000,000 4.9% bonds redeemable at any time between 30 November 2019 and 30 November 2021. The new bond issue was fully subscribed including €15,168,200, from existing bondholders of the 6% bonds due 2014-16 who exchanged their holding in the 6% bonds for the new 4.9% bonds. The remaining 6% bonds amounting to €4,831,800 will be entirely redeemed on 31 May 2014.

Results and dividends

The statement of comprehensive income is set out on page 8. The directors do not propose the payment of a final net dividend (2012: €3,000,000).

Directors

The directors of the Company who held office during the year were:

Joseph A. Gasan
Michael Soler
Mark Gasan
Roderick E. D. Chalmers
Juan de Battista
Anthony R. Curmi

The Company's Articles of Association do not require any director to retire.

Statement of directors' responsibilities for the financial statements

The directors are required by the Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the company as at the end of each reporting period and of the profit or loss for that period.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Gasan Finance Company p.l.c. for the year ended 31 December 2013 are included in the Annual Report 2013, which is published in hard-copy printed form and may be made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Going concern statement pursuant to Listing Rule 5.62

The directors are satisfied that, having taken into account the strength of the Company's statement of financial position and the level of profitability, it is reasonable to assume that the Company has adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

On behalf of the board

Joseph A. Gasan
Director

Juan de Battista
Director

Registered office
Gasan Centre
Mriehel By-Pass
Mriehel

Company Secretary:
Geoffrey Camilleri

Telephone number:
27788500

24 March 2014

Corporate governance – Statement of compliance

1. Introduction

Pursuant to the requirements of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority, Gasan Finance Company p.l.c. (the "Company") hereby reports on how it has complied with the "Code of Principles of Good Corporate Governance" (the "Code") appended to Chapter 5 of the Listing Rules.

It is relevant to note in this context that the Company has issued bonds to the public and accordingly the Company's rules of governance reflect the Company's size and the type of transactions involved. The Company does not have any employees. Consequently, some of the measures referred to in the Principles are not applicable, whilst others are only applicable to a limited extent.

2. Board of directors

The Company's Memorandum and Articles of Association provide that the board of directors shall consist of not less than four and not more than six directors. All the directors are appointed by the holders of the ordinary shares by a simple majority and at least one of the directors so appointed should be a person unconnected with the Gasan Group of Companies. As at the date of this Statement the members of the board, one of whom (Mr Anthony R. Curmi) is unconnected with the Gasan Group of Companies, are as follows:

Joseph A. Gasan	Chairman
Mark Gasan	Executive director
Juan de Battista	Managing director
Michael Soler	Non-executive director
Anthony R. Curmi	Non-executive director
Roderick E.D. Chalmers	Non-executive director

Meetings of the board are held as frequently as considered necessary. The board members are notified of forthcoming meetings by the Company Secretary with the issue of an agenda and supporting documents as necessary. During the financial year three board meetings were held.

The board is responsible for the Company's strategy and decisions with respect to the issue and redemption of its bonds and for monitoring that its operations are in conformity with its Prospectus and all relevant laws and regulations. The board is also responsible for ensuring that the Company installs and operates effective internal control and management information systems and that it communicates effectively with the market.

The board has delegated authority and accountability for the Company's day-to-day operations to its Board of directors. Both the Managing Director and Financial Controller are employees of a member company of the Gasan Group of Companies.

Corporate governance – Statement of compliance - continued

3. Internal control

Gasan Finance Company p.l.c. is a fully owned subsidiary of Gasan Group Limited. The latter company has established an Audit Committee that extends its function to include Gasan Finance Company plc. Inter alia, the Committee has been requested to regularly monitor that the Company's internal controls are appropriate and effective. The board of Gasan Group Limited, which includes non-shareholders and non-executive members, reviews the ongoing operations and financial results of the Company on a monthly basis.

The members of the Audit Committee are Roderick E. D. Chalmers as Chairman, Michael Soler and Juan de Battista. Roderick E. D. Chalmers is competent in accounting. The Company deems that, although Mr. Chalmers has a non-executive director relationship with the controlling shareholder and fellow subsidiary, in terms of Listing Rule 5.119 such relationship is not considered to create a conflict of interest such as to jeopardise exercise of his free judgement.

4. Remuneration committee

One of the Company's directors, namely Mr Anthony R. Curmi, receives a remuneration which is determined at the Company's Annual General Meeting and currently stands at €2,400 per annum. The members of the Board and senior executives are not entitled to share options, profit sharing, termination payments or other payments linked to early termination.

During the period under review, the functions of the Remuneration Committee were carried out by the Board of Directors in view of the fact that the remuneration of directors is not performance related.

5. Relations with bondholders and the market

The Company publishes extracts from its financial statements and when felt necessary holds information meetings at which it advises its bondholders and stockbrokers of its current and planned activities. The board feels that it is providing the market with adequate information about its activities through these channels.

The board has established a policy to ensure that proper procedures are followed by the directors and officers of the Company with respect to dealings in its bonds. The purchases or sales made by these individuals are regularly monitored to ensure that these procedures are complied with in accordance with the Listing Rules.

The board considers that the Company has been in compliance with the Principles throughout the year.

Approved by the board on 24 March 2014 and signed on its behalf by:

Joseph A. Gasan
Director

Juan de Battista
Director

pwc

Independent auditor's report

To the Shareholders of Gasan Finance Company p.l.c.

Report on the Financial Statements for the year ended 31 December 2013

We have audited the financial statements of Gasan Finance Company p.l.c on pages 7 to 27 which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 1 and 2, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Report on Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

Independent auditor's report - continued

Report on Corporate Governance - continued

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

We read the Statement of Compliance and considered the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the annual return.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 3 to 4 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

Report on Other Legal and Regulatory Requirements

We also have responsibilities:

- Under the Maltese Companies Act, 1995 to report to you if, in our opinion:
  - the information given in the directors' report is not consistent with the financial statements;
  - adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us;
  - the financial statements are not in agreement with the accounting records and returns;
  - we have not received all the information and explanations we require for our audit;
  - certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report;

- Under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78 Mill Street
Valletta
Malta

David Valenzia
Partner

24 March 2014

Statement of financial position

	Notes	As at 31 December 2013 €	2012 €
ASSETS			
Non-current assets			
Investment property	4	**33,400,000**	32,500,000
Trade and other receivables	5	**1,816,532**	1,677,316
Total non-current assets		**35,216,532**	34,177,316
Current assets			
Trade and other receivables	5	**28,109,275**	21,360,728
Total current assets		**28,109,275**	21,360,728
Total assets		**63,325,807**	55,538,044
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	**3,500,000**	3,500,000
Other reserve	8	**13,942,403**	13,150,403
Retained earnings		**5,576,998**	7,372,062
Total equity		**23,019,401**	24,022,465
Non-current liabilities			
Deferred tax liabilities	9	**3,834,464**	3,606,419
Borrowings	10	**29,903,696**	26,015,377
Total non-current liabilities		**33,738,160**	29,621,796
Current liabilities			
Trade and other payables	11	**669,345**	637,409
Current tax liabilities		**298,401**	487,674
Borrowings	10	**5,600,500**	768,700
Total current liabilities		**6,568,246**	1,893,783
Total liabilities		**40,306,406**	31,515,579
Total equity and liabilities		**63,325,807**	55,538,044

The notes on pages 11 to 27 are an integral part of these financial statements.

The financial statements on pages 7 to 27 were authorised for issue by the Board on 24 March 2014 and were signed on its behalf by:

Joseph A. Gasan
Director

Juan de Battista
Director

Statement of comprehensive income

	Notes	2013 €	2012 €
		Year ended 31 December	
Revenue	12	**3,534,482**	3,434,726
Interest payable	13	**(1,506,325)**	(1,497,205)
Gross profit		**2,028,157**	1,937,521
Administrative expenses	14	**(297,696)**	(271,315)
Operating profit before tax		**1,730,461**	1,666,206
Changes in fair value of investment property	4	**900,000**	2,659,660
Profit before tax		**2,630,461**	4,325,866
Tax expense	15	**(633,525)**	(815,896)
Profit for the year – total comprehensive income		**1,996,936**	3,509,970
Earnings per share	17	**1.43**	2.51

The notes on pages 11 to 27 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Other reserve €	Retained earnings €	Total equity €
Balance as at 1 January 2012		3,500,000	10,809,902	6,202,593	20,512,495
Comprehensive income					
Profit for the year		-	-	3,509,970	3,509,970
Other comprehensive income					
Investment property					
- as a result of changes in fair value, net of deferred tax	8	-	2,340,501	(2,340,501)	-
Total comprehensive income		-	2,340,501	1,169,469	3,509,970
Balance at 31 December 2012		**3,500,000**	**13,150,403**	**7,372,062**	**24,022,465**
Balance as at 1 January 2013		3,500,000	13,150,403	7,372,062	24,022,465
Comprehensive income					
Profit for the year		-	-	1,996,936	1,996,936
Other comprehensive income					
Investment property					
- as a result of changes in fair value, net of deferred tax	8	-	792,000	(792,000)	-
Total comprehensive income		-	792,000	1,204,936	1,996,936
Transactions with owners					
Dividends	18	-	-	(3,000,000)	(3,000,000)
Balance at 31 December 2013		**3,500,000**	**13,942,403**	**5,576,998**	**23,019,401**

The notes on pages 11 to 27 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2013 €	2012 €
Cash flows from operating activities			
Cash generated from operations	19	**3,081,540**	2,413,460
Interest paid		**(1,465,912)**	(1,503,318)
Tax paid		**(164,301)**	(141,442)
Net cash generated from operating activities		**1,451,327**	768,700
Cash flows from financing activities			
Net proceeds from bond issue	10	**9,348,250**	-
Advances to group companies	5	**(10,030,877)**	-
Repayment of bank loan	10	**(768,700)**	(768,700)
Net cash used in financing activities		**(1,451,327)**	(768,700)
Net movement in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year	6	**-**	-

The notes on pages 11 to 27 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, except as modified by the fair valuation of investment property.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires directors to exercise their judgment in the process of applying the Company's accounting policies (see note 3 – Critical accounting estimates and judgments).

Standards, interpretations and amendments to published standards effective in 2013

In 2013, the company adopted new standards, amendments and interpretations to existing standards that are mandatory for the company's accounting period beginning on 1 January 2013. With the exception of IFRS 13, the adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Company's accounting periods beginning after 1 January 2013. The Company has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of the below pronouncement, there are no requirements that will have a possible significant impact on the Company's financial statements in the period of initial application.

1.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the board of directors that makes strategic decisions. The board of directors considers the Company to be made up of one segment, that is raising financial resources from capital markets to finance the operations and capital projects of the Company and the Gasan Group. All the Company's revenue and expenses are generated in Malta and revenue is mainly earned from other companies forming part of the Gasan Group.

1. Summary of significant accounting policies - continued

1.3 Foreign currency translation

Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The euro is the company's functional and presentation currency.

1.4 Investment property

Investment property, comprising commercial premises including offices, shops and showrooms, is held for long term rental yields or for capital appreciation or both and which is not occupied by the Company is classified as investment property. Investment property comprises land and building and is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the directors. Investment property being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Changes in fair values are recorded in the profit or loss for the year and then transferred to "Other reserve" through the statement of changes in equity.

1.5 Bills of exchange

Bills of exchange are acquired at an amount based on the discounted face value.

1.6 Trade and other receivables

Trade receivables comprise amounts due from customers for services rendered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

1. **Summary of significant accounting policies** - continued

1.6 Trade and other receivables - continued

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss for the year within 'administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the statement of comprehensive income.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

1.8 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.9 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.10 Borrowings

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. These costs include underwriting, legal and professional fees, stockbrokers' commission and advertising costs. Borrowings are subsequently carried at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1. Summary of significant accounting policies - continued

1.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.13 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss for the year, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised directly in equity.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.14 Borrowing costs

Interest costs on borrowing to finance the construction of investment property are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

1.15 Revenue recognition

Revenue is recognised as it accrues, unless collectibility is in doubt, and is shown net of sales taxes.

1.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which they are declared.

2. Financial risk management

2.1 Financial risk factors

The Company's activities potentially expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company did not make use of derivative financial instruments to hedge risk exposures during the current and preceding financial years.

The board of directors provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

(a) Market risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of the market interest rates on its financing position and cash flows.

As at the reporting date, the Company has fixed rate interest-bearing assets comprising bills of exchange and amounts owed by the intermediate parent company and fellow subsidiaries. Accordingly, its revenue and operating cash flows are substantially independent of changes in market interest rates. The Company's interest rate risk arises from current bank borrowings. Bank loans (refer to note 10), expose the Company to cash flow interest rate risk. The board monitors the level of floating rate borrowings as a measure of cash flow risk taken on. Borrowings issued at fixed rates consisting of bonds issued to the public are carried at amortised cost (refer to note 10).

Based on the above, the board considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial.

(b) Credit risk

Credit risk arises from credit exposures to customers and amounts receivable from group companies (note 5).

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed in note 5. The Company does not hold any collateral as security in this respect.

Credit risk with respect to trade receivables is limited since the bills of exchange are subject to a full right of recourse. Other significant debts are owed by the intermediate parent company or fellow subsidiary. These debts are regularly monitored at group level and all amounts are deemed recoverable.

With respect to amounts receivable arising from rental income, the Company assesses on an ongoing basis the credit quality of the third party tenants, taking into account financial position, past experience and other factors. The Company manages credit limits and exposures actively in a practicable manner such that there are no material past due amounts receivable from third party tenants as at the reporting date. The Company has no significant concentration of credit risk arising from third parties.

As of 31 December 2013, no trade receivables were impaired.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk

The Company is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings and trade and other payables (refer to notes 10 and 11). Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Company's obligations and ensuring that alternative funding is available when the bank loan and bonds are due for repayment.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount	Contractual cash flows	On demand	Due within one year	Between 2 and 5 years	Over 5 Years
	€	€	€	€	€	€
31 December 2013						
Trade and other payables	**669,345**	**669,345**	669,345	-	-	-
Bond	**29,354,965**	**37,200,512**	-	6,177,595	4,900,000	26,122,917
Bank loan	**6,149,232**	**7,257,281**	-	1,019,677	3,753,857	2,483,747
Current tax	**298,401**	**298,401**	-	298,401	-	-
Total	**36,471,943**	**45,425,539**	669,345	7,495,673	8,653,857	28,606,664

	Carrying amount	Contractual cash flows	On demand	Due within one year	Between 2 and 5 years	Over 5 Years
	€	€	€	€	€	€
31 December 2012						
Trade and other payables	**637,409**	**637,409**	637,409	-	-	-
Bond	**19,866,145**	**21,700,000**	-	1,200,000	20,500,000	-
Bank loan	**6,917,932**	**7,371,432**	-	1,036,328	3,787,219	2,547,885
Current tax	**487,674**	**487,674**	-	487,674	-	-
Total	**27,909,160**	**30,196,515**	637,409	2,724,002	24,287,219	2,547,885

2.2 Fair values of financial instruments

At 31 December 2013 and 2012 the carrying amounts of trade receivables, trade payables and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities.

The fair value of non-current borrowings is based on amortised cost representing proceeds received net of transaction costs incurred. The amortisation of transaction costs is calculated using the effective yield method.

2. Financial risk management - continued

2.3 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders;
- to maintain an optimal capital structure to reduce the cost of capital; and
- to comply with requirements of the Prospectus issued in relation to the 6% bonds and 4.9% bonds.

The Company is committed to hold assets, to the amount of at least 105% of the aggregate principal amount of the bonds still outstanding and bank borrowings. The Company was compliant with this requirement throughout the year.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Investment property

	Land and buildings	
	2013	2012
	€	€
Year ended 31 December		
At beginning of year	**32,500,000**	29,840,340
Fair value gains (note 8)	**900,000**	2,659,660
At end of year	**33,400,000**	32,500,000
At 31 December		
Cost	**15,730,810**	15,730,810
Fair value gains	**17,669,190**	16,769,190
Net book amount	**33,400,000**	32,500,000

The Company's investment property consists of the Gasan Centre and the Piazzetta properties.

4. **Investment property** - continued

Fair value of investment property

An independent valuation of the company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2013 and 2012. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'other reserves' in shareholders' equity (note 8). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All the company's immovable property, comprising mainly office buildings, have been determined to fall within level 3 of the fair valuation hierarchy.

The company's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between levels 1 and 2 during the year.

For all properties, their current use equates to the highest and best use.

Fair value measurements using significant unobservable inputs (Level 3)

	Commercial rents
	€
Opening balance	32,500,000
Gains and losses recognised in other comprehensive income	900,000
Closing balance	**33,400,000**

Valuation processes

The valuations of the properties are performed annually by the directors on the basis of valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the company such as current rents, terms and conditions of lease agreements, service charges, capital expenditure, etc. This information is derived from the company's financial and property management systems and is subject to the company's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as yields and discount rates. These are based on their professional judgement and market observation.

4. Investment property - continued

The information provided to the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the directors. This includes a review of fair value movements over the period.

When the directors consider that the valuation report is appropriate, the valuation report is recommended to the Board. The Board considers the valuation report as part of its overall responsibilities.

As at 31 December 2013, the fair values of the land and buildings have been determined by the directors on the basis of valuation reports prepared by independent and qualified valuers.

Valuation techniques

For level 3 office buildings and airspace with a total carrying amount of €33,400,000 (2012: €32,500,000), the valuation was determined using rental income streams based on significant unobservable inputs. These inputs include:

Future rental cash inflows	based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties;
Capitalisation rates	based on actual location, size and quality of the properties and taking into account market data at the valuation date.

Information about fair value measurements using significant unobservable inputs (level 3)

			Range of significant unobservable inputs		
Description	**Fair value at 31 December €**	**Valuation technique**	**Rental value €**	**Growth rate %**	**Capitalisation rates %**
Office buildings	€33,400,000	Future rental cash flows	€61 to €126 per square metre	1% to 4%	5% to 5.6%

For each valuation for which rental value, growth rate and the rent multiple have been determined to be the significant unobservable inputs, the higher the rental value and growth rate, the higher the fair value. Conversely, the lower the rates, the lower the fair value.

4. **Investment property** - continued

If the investment property was stated on the historical cost basis the amounts would be as follows:

	2013	2012
	€	€
Cost	**15,730,809**	15,730,809
Accumulated depreciation	**(2,722,626)**	(2,500,843)
Net book amount	**13,008,183**	13,229,966

5. **Trade and other receivables**

	2013	2012
	€	€
Bills of exchange	**1,816,532**	1,677,316
Amounts owed from immediate parent company	**213,797**	345,367
Amounts owed from intermediate parent company	**-**	96,761
Amounts owed from fellow subsidiary	**24,210**	2,912
Loan to immediate parent company	**14,737,963**	16,385,349
Loan to intermediate parent company	**13,080,125**	4,401,862
Trade receivables	**17,909**	81,120
Indirect taxation	**35,271**	-
Prepayments and accrued income	**-**	47,357
	29,925,807	23,038,044
Less non-current portion: Bills of exchange	**(1,816,532)**	(1,677,316)
	28,109,275	21,360,728

The non-current bills of exchange mature as follows:

	2013	2012
Later than 1 year and no later than 5 years	**1,687,205**	1,018,042
Later than 5 years	**129,327**	659,274
Non-current portion: Bills of exchange	**1,816,532**	1,677,316

Third party bills of exchange are acquired from the immediate parent company with full right of recourse and 'without protest'. Interest at 8% (2012: 8%) per annum is earned on bills of exchange acquired.

Bills of exchange with a face value of €2,476,445 as at 31 December 2013 (2012: €2,476,445) have been transferred to a security trustee in order to build up the Sinking Fund Reserve (refer to note 10).

The loan to intermediate parent company and immediate parent company is unsecured, bears interest at 7% (reduced from 8% in December 2013) (2012: 8%) per annum and is repayable on demand.

6. Cash and cash equivalents

Although the company enters into cash transactions in the normal course of its operations as disclosed in the statement of cash flows, no cash or cash equivalents were held as at 31 December 2013 and 2012.

7. Share capital

	2013	2012
	€	€
Authorised, issued and fully paid		
1,400,000 ordinary shares of €2.50 each (2012: €2.50 each)	**3,500,000**	3,500,000

8. Other reserve

	2013	2012
	€	€
Investment property		
Year ended 31 December		
At beginning of year	**13,150,403**	10,809,902
Changes in fair value (note 4)	**900,000**	2,659,660
Deferred tax liability on changes in fair value of investment property	**(108,000)**	(319,159)
At end of year	**13,942,403**	13,150,403

The balance as at 31 December represents the difference between the fair value of the investment property, net of deferred tax and the historical cost. Such amount has been transferred from retained earnings to other reserve and in the opinion of the directors is non-distributable.

9. Deferred tax

	2013	2012
	€	€
Year ended 31 December		
At beginning of year	**3,606,419**	3,320,331
Charged to profit for the year (note 15)	**228,045**	286,088
At end of year	**3,834,464**	3,606,419

Deferred taxes are calculated on temporary differences under the liability method using a principal tax rate of 35% (2012: 35%), except for temporary differences on immovable property that are calculated under the liability method using a principal tax rate of 12% of the carrying amounts (2012: 12%). The deferred tax liabilities are mainly considered to be of a non-current nature.

9. Deferred tax - continued

The balance at 31 December represents:

	2013 €	2012 €
Temporary differences on investment property	**3,667,571**	3,559,571
Temporary differences on bond issue costs	**166,893**	46,848
	3,834,464	3,606,419

10. Borrowings

	2013 €	2012 €
Non-current		
Bonds (note a)	**24,523,164**	19,866,145
Bank loan (note b)	**5,380,532**	6,149,232
Total non-current borrowings	**29,903,696**	26,015,377
Current		
Bonds (note a)	**4,831,800**	-
Bank loan (note b)	**768,700**	768,700
Total current borrowings	**5,600,500**	768,700

(a) The bonds are disclosed at the value of the proceeds less the net book amount of the issue costs, as follows:

	2013 €	2012 €
Proceeds		
20,000,000 6% bonds 2014/2016	**4,831,800**	20,000,000
25,000,000 4.9% bonds 2019/2021	**25,000,000**	-
	29,831,800	20,000,000
Issue costs	**963,850**	480,300
Accumulated amortisation	**(487,015)**	(346,445)
	476,835	133,855
Amortised cost and closing carrying amount of the bonds	**29,354,965**	19,866,145

In 2013, the Company embarked on a bond-exchange programme when it issued €25,000,000 4.9% bonds redeemable at any time between 30 November 2019 and 30 November 2021. The new bond issue was fully subscribed including €15,168,200, from existing bondholders of the 6% bonds due 2014-16 who exchanged their holding in the 6% bonds for the new 4.9% bonds. The remaining 6% bonds amounting to €4,831,800 will be entirely redeemed on 31 May 2014.

10. Borrowings - continued

The quoted market price as at 31 December 2013 for the 6% bonds 2014/2016 was €103.21 (2012: €103.10) and for the 4.9% bonds 2019/2021 was €103.00.

With regard to the 6% bonds 2014/2016, in accordance with the requirements of the prospectus, the Company is required to, with effect from the end of the financial year 2011, over the period up to the redemption date, build a reserve ("the reserve"), the value of which will by the end of such period be equivalent at least to 50% of the aggregate outstanding principal amount of the bonds at the relevant time with a view to funding in part the repayment of capital on the bonds at the redemption date.

The reserve is required to be made up of
(i) hire purchase bills of exchange at carrying value to the Issuer; and/or
(ii) cash and/or deposits at a local bank licensed by the MFSA; and/or
(iii) debt securities issued or guaranteed by any sovereign state within the Eurozone or which is a member of the OECD or other debt securities which are rated as AAA by a recognised international rating agency, without any currency exchange risk, at the lower of cost and market value.

The reserve is currently made up of bills of exchange (refer to note 5) as well as a bank guarantee amounting to €720,000 (2012: nil).

(b) The bank loan is repayable within eight years, is secured by guarantees from the controlling parent company and is subject to a floating interest rate equivalent to 4.05% (2012: 4.2%).

11. Trade and other payables

	2013	2012
	€	€
Current		
Capital and other payables	**131,682**	303,310
Interest payable	**218,720**	178,308
Accruals and deferred income	**117,256**	146,331
Amounts owed to intermediate parent company	**31,382**	-
Amounts due to fellow subsidiaries	**170,305**	6,872
Indirect taxation	**-**	2,588
	669,345	637,409

Amounts due to fellow subsidiaries are unsecured, interest free and repayable on demand.

12. Revenue

	2013	2012
	€	€
Rental income from investment property	**1,657,053**	1,649,168
Bills interest receivable	**139,215**	71,658
Interest receivable	**1,738,214**	1,713,900
	3,534,482	3,434,726

Details of revenue derived from related parties is disclosed in note 21.

13. Interest payable

	2013	2012
	€	€
Interest payable on bonds	**1,224,323**	1,200,000
Interest payable on bank loan	**282,002**	297,205
	1,506,325	1,497,205

14. Expenses by nature

	2013	2012
	€	€
Amortisation of bonds issue costs	**140,570**	94,485
Stock exchange costs and administration fees	**47,655**	53,725
Investment property expenses	**59,636**	84,345
Professional fees	**19,913**	8,914
Other expenses	**29,922**	29,846
Total administrative expenses	**297,696**	271,315

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2013 and 2012 relate to the following:

	2013	2012
	€	€
Annual statutory audit	**5,500**	5,500
Tax, advisory and compliance services	**850**	850
	6,350	6,350

15. Tax expense

	2013	2012
	€	€
Current tax expense	**397,550**	529,808
Underprovision of current tax in prior year	**438,382**	-
Overprovision of group relief for prior years	**(430,452)**	-
Deferred tax charge (note 9)	**228,045**	286,088
	633,525	815,896

15. Tax expense - continued

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2013 €	2012 €
Profit before tax	**2,630,461**	4,325,866
Tax at 35%	**920,661**	1,514,053
Tax effect of:		
Expenses not deductible for tax purposes	**27,855**	28,861
Maintenance allowance claimed on rented property	**(115,921)**	(115,296)
Underprovision in prior year	**7,930**	-
Movement applicable to investment property	**(207,000)**	(611,722)
Tax expense	**633,525**	815,896

16. Director's emoluments

	2013 €	2012 €
Fees	**2,400**	2,400

17. Earnings per share

Earnings per share is based on the profit for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to equity holders of the Company (€)	**1,996,936**	3,509,970
Weighted average number of ordinary shares in issue	**1,400,000**	1,400,000
Earnings per share (€)	**1.43**	2.51

18. Dividends

	2013 €	2012 €
Dividends paid on ordinary shares:		
Gross	**3,903,186**	-
Tax at source	**(903,186)**	-
Net	**3,000,000**	-
Dividends per share	**2.14**	-

19. Cash generated from operations

	2013	2012
	€	€
Profit before tax	**2,630,461**	4,325,866
Adjustments for:		
Amortisation of bond issue costs	**140,568**	94,485
Interest expense	**1,506,326**	1,497,205
Changes in fair value of investment property	**(900,000)**	(2,659,660)
Changes in working capital:		
Trade and other receivables	**143,113**	(770,625)
Trade and other payables	**(438,928)**	(73,811)
Cash generated from operations	**3,081,540**	2,413,460

The major non-cash transaction during the year were the payment of the dividend to the immediate parent company amounting to €3,000,000.

20. Capital commitments

Operating lease commitments – where the Company is the lessor

The future minimum rent receivable is as follows:

	2013	2012
	€	€
No later than 1 year	**1,645,107**	1,618,531
Later than 1 year and no later than 5 years	**6,490,819**	5,397,589
Later than 5 years	**4,874,159**	95,794
	13,010,085	7,111,914

The above includes rent charged to Gasan Properties Limited. In accordance with an agreement which took effect in 2013 and which runs for a period of eight years, the Company is charging Gasan Properties Limited an annual rent of €1.4 million with regular increments until 2021. The lessee is obliged to acquire the property during the period of the lease, if requested by the lessor, at the market value based on architect's valuation.

21. Related party transactions

The companies forming part of the Gasan Group are considered by the directors to be related parties as these companies are ultimately owned by J.A.G. Limited.

Transactions in respect of bills of exchange are carried out with Gasan Enterprises Limited and Gasan Investments Limited.

21. Related party transactions - continued

The following transactions were also carried out with related parties:

	2013	2012
	€	€
Revenue		
Hire purchase bills interest	**139,215**	71,658
Interest receivable on loans	**1,738,214**	1,713,900
Rent receivable	**1,400,000**	1,400,000
Expenses		
Administration and management fees	**28,297**	51,246
Insurance and other expenses	**11,131**	12,632
Property related expenses	**14,626**	20,821

Year end balances owed by/to related parties are disclosed in notes 5 and 11 to these financial statements.

Key management personnel compensation, consisting of directors' emoluments has been disclosed in note 16. Dividends paid to related parties are disclosed in note 18.

22. Statutory information

Gasan Finance Company p.l.c. is a limited liability company and is incorporated in Malta.

The immediate parent company of Gasan Finance Company p.l.c. is Gasan Enterprises Limited, a company registered in Malta, with its registered address at Gasan Centre, Mriehel By-Pass, Mriehel. Gasan Enterprises Limited is exempt from the preparation of consolidated financial statements by virtue of section 174 of the Companies Act, 1995.

Gasan Group Limited is the intermediate parent company and undertaking that draws up the consolidated financial statements of the smallest body of undertakings of which Gasan Finance Company p.l.c. forms part as a subsidiary company. The registered address of Gasan Group Limited is Gasan Centre, Mriehel By-Pass, Mriehel.

The ultimate parent company of Gasan Finance Company p.l.c. is J.A.G. Limited, a company registered in Malta, with its registered address at Gasan Centre, Mriehel By-Pass, Mriehel. The ultimate controlling party of Gasan Finance Company p.l.c. and of J.A.G. Limited is Mr J. A. Gasan. The financial statements of Gasan Finance Company p.l.c. are included in the consolidated financial statements prepared by J.A.G. Limited.